12

Corporate Social Responsibility (CSR) and innovation

Learning outcomes

After reading this chapter, you should be able to:

- Understand the significance of Corporate Social Responsibility and its business implications.
- Explain the benefits of Corporate Social Responsibility for international firm strategies, particularly for innovation.
- Construct a stakeholder map for a multinational firm.
- Evaluate the innovation potential of Corporate Social Responsibility for a multinational firm.

Opening case study Two crises influence the strategy of Royal Dutch/Shell

Royal Dutch/Shell is one of the largest multinational firms in the world. But two events in 1995 showed that the strategies of even the largest multinational firms might change as a result of external social pressures.

On 30 April 1995, Shell managers were taken by surprise when Greenpeace activists boarded the *Brent Spar*, a floating oil storage facility in the North Sea. The *Brent Spar* had been decommissioned, and Shell had planned to sink it in the Atlantic. The British government strongly supported Shell's disposal plans. But Greenpeace criticized the planned sinking of the *Brent Spar*, which they claimed contained some harmful substances, and advocated onshore disposal. For almost two months, the *Brent Spar* issue dominated media reporting in the UK and many other countries. While Greenpeace occupied the *Brent Spar* in the North Sea, public protests took place elsewhere and were strongest in Germany, where Shell faced a major decline in petrol sales. Finally, in June 1995, Shell announced a reversal of its decision to sink the *Brent Spar*. Greenpeace claimed victory and the protests stopped.

Then, Shell faced criticism over its operations in the Ogoni area of Nigeria. For a number of years, the Ogonis (an ethnic minority of some 500,000 people) had complained about major environmental damage caused by Shell and demanded greater benefits from oil operations for the local people. They suffered from oil spills and other harmful side effects of oil production, while little oil money flowed back to the local communities. After local protests led by the Movement for the Survival of the Ogoni People (MOSOP), Shell withdrew from the Ogoni area in 1993. But, in November 1995, the Nigerian government executed the prominent Ogoni leader and chief Shell critic, Ken Saro-Wiwa, and eight others. This galvanized non-governmental organizations (NGOs) into supporting the Ogoni cause, and new anti-Shell protests erupted around the world.

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As a result of these two crises, Shell underwent a major process of transformation. As Mark Moody-Stuart, chairman of the Committee of Managing Directors, said: 'Shell is undergoing fundamental change ... We have learned the hard way that we must listen, engage and respond to our stakeholder groups.' In 1996, the company initiated the 'Society's Changing Expectations' project, a sophisticated audit of the views of the company's stakeholders. The Shell Group's *Statement of General Business Principles* was revised to include statements in support of fundamental human rights and sustainable development. Shell engaged in a process of dialogue with a number of stakeholders, including human rights organizations. The internal organization also changed and Shell set up the Social Responsibility Committee at the highest corporate levels of the two parent companies.

Shell has made public commitments on how it intends to operate in a socially responsible manner. For instance, the company promised to bring its greenhouse gas emissions (which contribute to global warming) to at least 5% below 1990 levels by 2010. In fact, Shell was able to reduce its emissions by 25% by 2010 compared with 1990 levels.

Shell executives are convinced that socially responsible strategies will help their business. Ben van Beurden, who became the company's CEO in 2014, said that social and environmental sustainability 'can create new business opportunities by responding to market demands for more sustainable products and responsible solutions'.

Source: J. G. Frynas, *Oil in Nigeria: Conflict and Litigation between Oil Companies and Village Communities* (Münster and Hamburg: LIT, 2000); T. Rice and P. Owen, *Decommissioning the Brent Spar* (New York: E & FN Spon, 1999); R. Boele and H. Fabig, 'Shell, Nigeria and the Ogoni', MBA Case Study for the 3rd Annual Nestlé Canada MBA Case Competition in Business and Sustainability (Schulich School of Business, York University, Toronto, 28–29 January 2000); Shell website at http://www.shell.com, accessed 27 March 2014.

12.1 Introduction

The activist campaigns against Shell made managers of other companies re-evaluate the relationship between business and society. In both the *Brent Spar* and the Nigerian case, Shell relied on the British and Nigerian governments to 'sort things out'. In both cases, Shell failed to scan the wider external business environment for opportunities and threats. Shell's actions were entirely legal, the company duly paid government taxes, and it believed that it had done nothing wrong. But the public increasingly expected businesses to act in a socially responsible manner, above and beyond legal requirements.

Shell and other companies have also learned that Corporate Social Responsibility (CSR) can bring many benefits for a company: a better reputation, better employee motivation, and better risk management, among others. Furthermore, companies have learned that CSR can help towards innovation, both in terms of new ways of doing things and in terms of new technologies.

So, what is Corporate Social Responsibility (CSR)? The European Commission simply defined CSR as 'the responsibility of enterprises for their impacts on society'. This definition takes for granted that firms should maximize value both for owners and for other 'stakeholders' and that firms should identify, prevent, and mitigate any possible negative effects of their business operations. The European Commission's general definition is adopted in this book.

Unfortunately, there is no agreement on the exact meaning of CSR or what CSR means for a specific industry or a specific company. CSR means something different to a Shell manager and a McDonald's manager. CSR means something different to an American manager and an Indian manager. It also means something different to a business manager and a Greenpeace activist. Despite these differences, the CSR concept implies that companies have a responsibility for their impact on society and the natural environment, often beyond that of legal compliance.

While CSR can mean different things to different people, there is evidence that most large multinational firms view CSR as important to the success of their business. In a 2013 survey of 1,000 global CEOs from 107 countries by the consulting firm Accenture, 93% of CEOs believed that sustainability will be important to the future success of their business (Accenture 2013). Many multinational firms have ethical codes of conduct, environmental management systems, and corporate responsibility reports. According to surveys by the consulting firm KPMG, 93% of the world's 250 biggest companies had a corporate responsibility report in 2013, an increase from 45% in 2002. Social and environmental reporting grew fastest in emerging markets such as India and China. For example, in China, the proportion of the 100 largest companies with a corporate responsibility report increased from 59% in 2011 to 75% in 2013. In India, the proportion of the 100 largest companies with a corporate responsibility report increased from 20% in 2011 to 73% in 2013 (KPMG 2013).

Key concept

Corporate Social Responsibility (CSR) is the responsibility of enterprises for their impacts on society, which encompasses the idea that firms should maximize value for both owners and for other 'stakeholders' and that firms should identify, prevent, and mitigate any possible negative effects of their business operations. But any definition is problematic, and people from different countries and different sectors emphasize different issues in their understanding of CSR.

12.2 Corporate Social Responsibility and corporate objectives

With the rise of CSR, multinational firms are asked to take on new tasks in promoting social and environmental objectives. The main objection to CSR is that businesses serve the sole purpose of making profit and they should not pursue any other objectives.

12.2.1 Companies and profit maximization

Milton Friedman is probably the most well-known advocate of the idea that companies do not have any responsibilities beyond profit maximization. Friedman (1963: 133) stated that there is: 'only one social responsibility of business: to use its resources and energy in activities designed to increase its profits so long as it stays within the rules of the game ... [and] engages in open and free competition, without deception and fraud'.

According to this view, by pursuing social and environmental business objectives, firms will ultimately hurt shareholders by generating lower profits. Indeed, according to Friedman (1963: 133), the idea that firms have any responsibilities beyond maximizing profits for their shareholders represents 'a fundamental misconception of the character and nature of a free economy'.

Furthermore, Friedman argued that firms do not have the expertise to engage in solving social problems. By implication, specialized institutions such as government agencies or charities are in a much better position to pursue social and environmental objectives.

Milton Friedman's views are extreme, but they still find supporters today (Henderson 2001; Ottaway 2001). When referring to oil companies, Marina Ottaway (2001) stated that companies 'are not the right organizations for furthering moral causes. Oil companies may be 'organs of society', but they are highly specialized ones, and their strengths lie not in devotion to democracy and human rights but in finding, extracting, and distributing oil'. David Henderson (2001: 147–8) contended that CSR can damage the economic development of firms and nations, as 'welfare may be reduced, not only because businesses are compelled to operate less efficiently, but also because new forms of interventionism arising out of the adoption of CSR, including closer regulation, narrow the domain of competition and economic freedom'.

12.2.2 Changing views on the role of companies in society

Milton Friedman rightly defends the interests of shareholders, but the views on the role of business in society are changing. Companies are increasingly expected to assist in addressing many of the world's pressing problems, including climate change, poverty, and HIV/AIDS. According to a 2007 survey by the consultancy firm McKinsey carried out among the chief executive officers (CEOs) of selected companies, 95% of the CEOs believed that society has greater expectations than it did five years ago that companies will assume public responsibilities. More than half of the CEOs believed that these expectations would increase significantly during the next five years (Bielak et al. 2007).

Executives of multinational firms no longer agree with Friedman's view that profit maximization should be the only corporate objective; they believe that high returns to investors should be accompanied by broader contributions to the public. According to a 2013 survey of 1,000 global CEOs from 107 countries by the consulting firm Accenture, 84% of CEOs believed that business should lead efforts to define and deliver new goals on global social and environmental issues. For example, the CEO of the multinational food and beverage firm Nestlé, Paul Bulcke, said that 'the role of every company is to be a positive force in society', while the chairman of the consulting firm KPMG, Michael Andrew, said that business has a 'role to play to fix these [social and environmental] challenges, re-address our business model and the way we do things to ensure that we have a broader vision for the future' (Accenture 2013).

12.2.3 National differences

Even if firms decide to pursue social and environmental objectives, international business poses a difficulty, as different nations have different understandings of what 'socially responsible' means. Indeed, people in different countries sometimes have strikingly dissimilar views on CSR. When asked what CSR means to them, people from different countries emphasize different issues; for instance, environmental issues are stressed in Thailand, while people in Ghana stress contributions to local communities (see Exhibit 12.1). In different countries, companies are expected to pursue different social objectives. In South Africa, companies are particularly expected to support advancement for black people and HIV/AIDS programmes (Hamann et al. 2005), while companies in Nigeria are expected to help their local communities through philanthropic activities (Amaeshi et al. 2006). Therefore, one objection to universal CSR standards is that they would fail to address specific national contexts.

When multinational firms pursue social and environmental objectives, they also face differences between countries in terms of conditions for the implementation of CSR initiatives. In emerging economies such as China and Russia, there are restrictions on the activities of the media and non-governmental organizations such as Greenpeace; therefore, companies may have difficulties in consulting all stakeholders and monitoring the success of CSR initiatives. Indeed, the uneven spread of the conditions of success across the world explains the uneven development of CSR in different parts of the world. Studies show that firms in emerging economies such as India and South Africa have much more sophisticated CSR policies than firms from other emerging markets such as China and Russia; indeed, CSR is generally more developed in India and South Africa than in China and Russia (Baskin 2006; Frynas 2009).

Exhibit 12.1 Different views of Corporate Social Responsibility (CSR)

The World Business Council for Sustainable Development asked businesspeople and non-businesspeople what they thought of the Corporate Social Responsibility (CSR) concept. This is what people in several countries had to say.
In Taiwan, it was suggested that the definition should address:

- Benefits for future generations.
- Environmental concerns (damage prevention and remediation).

In the United States, people commented:

- Include more emphasis on the role of the individual.
- Reflect the need for greater transparency.
- The term 'economic development' does not adequately capture the breadth of the economic role of business in society.

In Ghana, it was suggested that the definition should include the notions of:

- A global perspective which respects local culture.
- Building local capacity, leaving a positive legacy.
- Empowerment and ownership.
- Teaching employees skills and enabling communities to be self-sufficient.
- Filling in when government falls short.
- Giving access to information.
- Partnerships, because CSR does not develop in a vacuum.

In Thailand, people stated it should try to capture:

- The concept that the bigger the company, the greater the obligation.
- The importance of environmental mitigation and prevention.
- The need for transparency.

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- The importance of consumer protection.
- Awareness of and change in people's attitudes towards the environment.
- The relevance of youth and gender issues.

Source: R. Holme and P. Watts, *Corporate Social Responsibility: Making Good Business Sense* (Geneva: World Business Council for Sustainable Development, January 2000): 8–9. Reprinted with permission of the World Business Council for Sustainable Development.

12.3 Corporate Social Responsibility and stakeholders

The view that businesses should pursue certain social and ecological goals suggests that managers have broader responsibilities that extend beyond the company's owners and shareholders to include employees, customers, suppliers, and local communities. This view goes beyond corporate charitable donations, public relations exercises, or special employee benefits, all of which have been pursued by companies for a long time. It stresses that companies have responsibilities to their stakeholders (Pegg 2003).

12.3.1 Stakeholder view of the firm

Many scholars and managers now accept the idea that a firm has stakeholders (Chang and Ha 2001; Handy 1994). A stakeholder is typically defined as 'any group or individual who can affect or is affected by the achievement of the organization's objectives' (Freeman 1984: 46). Stakeholders include employees, customers, suppliers, stockholders, banks, pressure groups, governments, and other groups who can either help or damage the firm (see Exhibit 12.2). Freeman (1984) simply summarized the stakeholder approach as 'the principle of who or what really counts'.

The stakeholder approach, which was originally devised as just another tool for understanding organizations and analysing the business environment, is now mainly associated with CSR. Since managers usually paid enough attention to suppliers or governments in the past, the literature on CSR usually put emphasis on 'non-traditional' stakeholder groups such as pressure groups and local communities. It is those groups which put pressure on companies to accept social responsibilities and which traditionally have not been part of the firm's strategic analysis. The stakeholder view of the firm undermines the notion that a firm should only maximize profits for shareholders. Rather, the goal of any firm should be to satisfy the aspirations of all of the main stakeholders.

Key concept

A stakeholder is any group or individual that can affect or is affected by the achievement of the organization's objectives. Stakeholders include employees, customers, suppliers, stockholders, banks, pressure groups, governments, and other groups that can either help or damage the firm. Freeman (1994: 411) summarized the stakeholder approach as 'the principle of who or what really counts'.

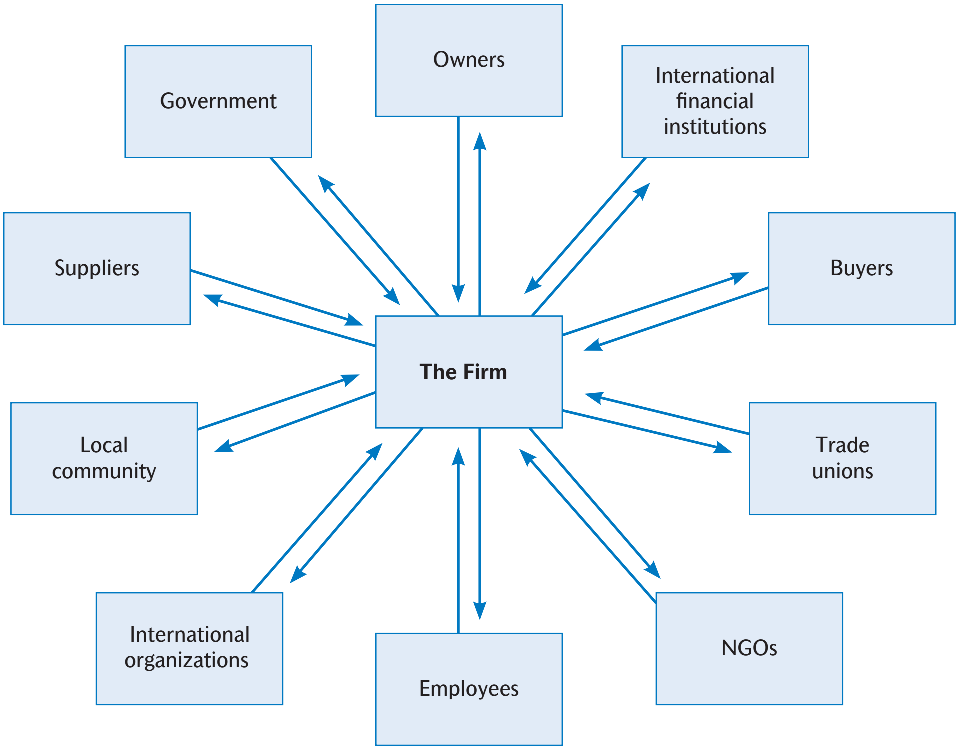

Exhibit 12.2 Generic stakeholder map of a multinational firm

12.3.2 Stakeholder mapping

In order to design a strategy for dealing with social and environmental issues, a company must first identify who its stakeholders are and which stakeholders are the most important ones to talk to—this is called 'stakeholder mapping'.

Exhibit 12.2 shows a generic stakeholder map of a multinational firm. This can serve as a starting point for identifying the main stakeholders. 'Generic stakeholders' refers to categories of groups that can affect the firm or are affected by the firm, such as suppliers or government. While government is a category, it is the finance ministry, the environmental protection agency, or the country's parliament which can affect the achievement of strategic goals (Freeman 1984: 54).

However, the mapping of stakeholders is much more complicated than Exhibit 12.2 suggests, because a multinational firm faces different groups in different countries. Furthermore, stakeholders can be very different for different organizations. For example, environmental pressure groups may be crucial for a waste-treatment plant but may be of little importance to an online book retailer. Therefore, every firm must identify the specific stakeholders which are important to it, both globally and in each country of its operations.

Exhibit 12.3 shows a generic stakeholder map for the London-based firm Shell International. Under each of the headings, such as government or non-governmental organizations,

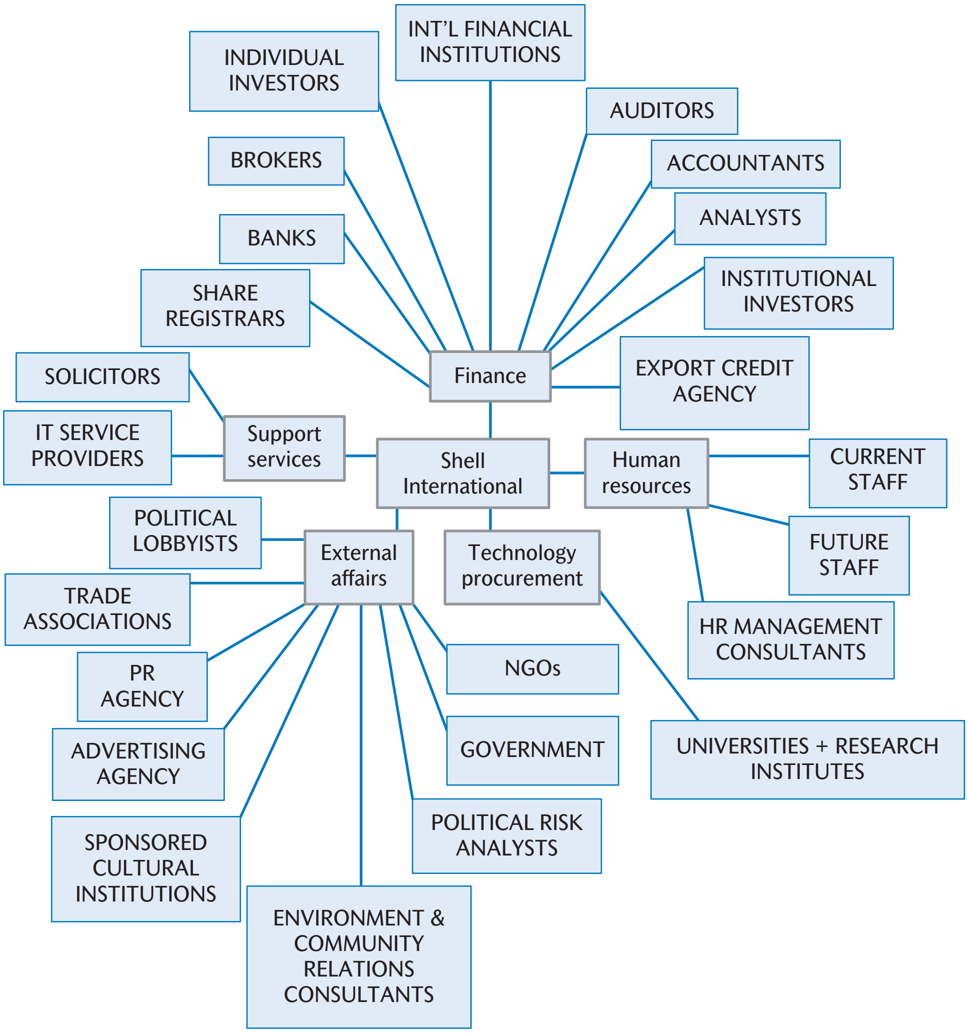

Exhibit 12.3 Stakeholders of Shell International

Source: Adapted from Platform website at http://www.carbonweb.org/. Reproduced with permission of Platform.

there may be very different groups with different interests. Furthermore, Shell's subsidiaries in different parts of the world will have many other stakeholders. For instance, the stakeholders of Shell's Nigerian subsidiary will include contracting firms such as Willbros and Schlumberger, local host communities represented by village chiefs, youth leaders and women's groups, and government agencies such as the Nigerian environment ministry and the Nigerian state-owned oil corporation. A failure to identify an important stakeholder may be costly to the firm. For instance, Shell in Nigeria failed to consider Ken Saro-Wiwa's MOSOP movement as a legitimate stakeholder and refused to talk to MOSOP, which was one of the key reasons for the company's poor relations with local communities in the country. This illustrates the importance of constructing precise stakeholder maps.

Key concept

A stakeholder map identifies a company's stakeholders and classifies them according to their importance.

12.3.3 Problems in stakeholder mapping

Exhibit 12.3 shows that it is not easy to construct a stakeholder map. Freeman (1984: 58) pointed out that two issues must be considered when stakeholders are identified. First, the same group can have different stakeholder roles for the company. For instance, for Shell in Nigeria, the government is a stakeholder as a regulator, but it is also an owner (as joint-venture partner) and a financial institution (the Nigerian Central Bank). Multiple roles of the same stakeholder group can give rise to conflicting demands on the company. Second, stakeholder groups are interconnected and may influence each other. For Shell in Nigeria, the local communities (MOSOP) had an impact on environmental pressure groups; in turn, the media publicity generated by international pressure groups led a financial institution (the International Finance Corporation of the World Bank) to withdraw from its participation in a Shell gas project.

A further complication in constructing a stakeholder map is that such a map is only useful at a particular point in time for a specific purpose. Managers should never forget that the relative importance of stakeholders may be different for different issues and projects. Therefore, stakeholders require different degrees and types of attention, depending on things such as their attributed possession of power or the urgency of issues, while levels of these attributes (and thereby the importance of a stakeholder) can vary from issue to issue and from one time to another (Mitchell et al. 1997).

12.3.4 Which stakeholders should the firm focus on?

Firms cannot accommodate the interests of every stakeholder. There are just too many of them. A multinational firm which operates in many different countries has thousands of stakeholders with very different agendas and demands. Furthermore, stakeholders may have contradictory interests. One environmental pressure group may want the company to divest from a certain project, while another group may want the company to introduce anti-pollution measures but continue operating. But some stakeholders are just much more significant than others and it is important to identify who the main stakeholders are and how much power they have over the firm.

The firm may need to focus on different stakeholder groups, depending on several factors. One such factor is the firm's corporate nationality. Despite globalization, a firm's national origin can still account for many differences between multinational firms. Pauly and Reich (1997), also mentioned in Chapter 2 (Section 2.10.3), found that German and Japanese firms obtain most of their financing through banks, for instance, while US firms rely much more on capital markets. So banks would be more important stakeholders to a Japanese or a German firm. With regards to CSR, US and Western European firms were more frequently targeted by the mainly Western-based pressure groups than firms from emerging economies such as China and Russia. So Greenpeace will be of much greater importance to a British firm than to a Chinese firm.

As the needs of a firm change over time, the relative importance of stakeholders will change as it evolves. During the start-up stage, when the firm is most concerned about obtaining initial financing and entering the marketplace, the key stakeholders are likely to be shareholders, creditors, and customers. In contrast, during the maturity stage, firms are likely to act proactively towards most of their stakeholders including communities and pressure groups. On the one hand, firms are likely to be larger at the mature stage and will attract more scrutiny from stakeholders; on the other hand, firms will have more cash flow without particularly attractive investment opportunities (Jawahar and McLaughlin 2001).

The type of industry can also influence a firm's response to social demands by stakeholders. For instance, Greenpeace will be a key stakeholder for industries which cause major pollution, such as the oil industry; but it will be of less relevance for garment manufacturers, which cause relatively little pollution. On the other hand, garment manufacturers must pay attention to pressure groups such as Clean Clothes Campaign, which targets garment production.

12.3.5 Critique of stakeholder mapping

Stakeholder mapping has been criticized because a stakeholder map is usually constructed by managers from within the company who have subjective views about stakeholders. One study found that top managers ascribed more relative importance to stakeholders who played a part in the traditional activities of the firm (owners, customers, and employees) than to the government or non-traditional stakeholder groups (Agle et al. 1999). Jawahar and McLaughlin (2001: 411) noted that:

> functional managers, in order to increase their power, may exaggerate threats from their stakeholders, leading top managers to form an inaccurate picture of demands on the organization. Such acts of self-interest may cause the organization to be out of sync with the predictions of our stakeholder theory.

Finally, stakeholder attributes are socially constructed; they are not objective reality. Managers may have different perceptions on issues such as stakeholder legitimacy compared with a stakeholder's own perception (Mitchell et al. 1997). As Freeman (1984: 64) reminded us, when the managers' 'perceptions are out of line with the perceptions of the stakeholders, all the brilliant strategic thinking in the world will not work'.

Ulrich Steger (2003) suggested that in today's fast-moving global business environment, managers often cannot be sure about either stakekolder groups or their demands. Thus the use of stakeholder maps may be of limited value because key stakeholders may change or their demands may change. According to Steger, a focus on stakeholder analysis can only work if you have all the information: who all of your stakeholders are; what they want at a given moment (which could change); and how to rank the urgency of dealing with the most important stakeholder groups. But firms rarely have all the relevant information in today's global business environment. Managers may not know whether Greenpeace or another stakeholder is planning a campaign against the organization, but they might be aware of a public debate about a specific issue—e.g., about the proposed phasing out of a dangerous chemical or calls for better working conditions in a given industry or country.

Therefore, Steger (2003) suggested that managers should focus on issues which could become threats to the organization, rather than focus on stakeholders. He believes that, rather than preparing stakeholder maps, firms should have an 'early warning system' (EWS), which will scan the business environment for early signs of problems. Companies may already have some form of EWS, for example, consumer research aimed at detecting new desires, shifts in social attitudes, or incoming orders. But Steger believes that firms should also have an EWS for detecting external social pressures before they cause problems to the firm. This can be done with the help of systematic information gathering, dissemination of information within the organization, and simple management tools or checklists.

12.3.6 **Issue analysis**

One tool for issue analysis proposed by Steger (2003) is cross-impact analysis, which can be used by managersduring brainstorming sessions, for example (see Exhibit 12.4). By placing potential threats and opportunities in the business environment in relation to corporate objectives, managers can better understand how an issue could influence the organization. Steger recommends this tool for situations such as, for example, when ecological issues prompt customers to direct criticism at a company because of its products and begin switching to environmentally friendly products. It could also be used in situations when a firm is confronted with stricter regulations on product quality, which could make innovation more

Exhibit 12.4 Example of cross-impact analysis

	Potential environmental product-related developments			
	Potential for public criticism	**Ability of consumers to switch to environmentally friendly substitutes**	**Stricter environmental regulations**	**Ability to innovate**
Corporate issues				
Safeguarding of competitiveness	–	–	–	+
Profit	0	–	–	?
Qualified and motivated employees	–	–	?	+
Quality level of products—user-friendly image	0	0	?!	0
Diversification	+	+	+	?
Globalization	0	0	–	+ –
Distribution channels	?	?!	?	0

+ = positive influence
? = ambiguous/uncertain influence
– = negative influence
?! = unknown if it will have an influence or not and, if so, in which direction
0 = neutral

Source: U. Steger, *Corporate Diplomacy—The Strategy for a Volatile, Fragmented Business Environment* (Chichester: Wiley, 2003). Reprinted with permission of John Wiley & Sons.

feasible. This type of analysis might indicate that the ability of customers to switch to another firm's products is high or that the potential for innovation is higher than previously assumed.

One assumption underlying issue analysis is that most issues do not come entirely without warning and that in most cases managers could have detected the issue, as issues follow patterns or a set of criteria. In order to help managers decide how an issue might develop in future, Winter and Steger (1998) proposed a checklist which asks eight questions:

1. Are the arguments against the issue plausible?
2. Does the issue evoke emotion? Is it understandable—visual, touching—by the public?
3. Is the issue media-friendly?
4. Are there connections to other issues involving the company or other companies?
5. How strong is the key activist group?
6. How isolated is the company?
7. How far have the dynamics of the crisis already evolved?
8. How easy is the solution?

The checklist can help to understand some of the dynamics of social and ecological issues. For example, the pharmaceutical industry has been frequently criticized for unethical practices but has rarely attracted major pressure-group campaigns in the same way as the oil or mining industries. The checklist makes clear to us that issues involving pharmaceuticals are usually very complex, difficult to understand, and not particularly media-friendly. The side effects of a given medical drug may not be as easy to explain, not as easy to prove, and not as media-friendly compared with, for instance, the direct effects of an oil spill on bird life. The activist pressure groups which focus on pharmaceuticals are not as strong as activist pressure groups focused on oil-related or mining-related issues. However, major Western pharmaceutical firms have been targeted in campaigns related to AIDS drugs. Firms have been forced to cut prices for AIDS drugs sold in developing countries and to allow cheap imitations of drugs to be produced in those countries. The checklist could have helped pharmaceutical firms to forecast the rising importance of the AIDS issue. The issue evokes considerable emotion, the effects of high drug prices on poor HIV-infected Africans are easily understandable, and the issue is media-friendly.

As with stakeholder analysis, one problem with issue analysis is that some information may not be known to the firm. A lack of understanding by managers might call for a deeper investigation of the issue in order to detect any changes in the business environment. As Steger (2003) pointed out, a precondition for the use of cross-impact analysis is that no predominating opinion should be allowed to prevail and that advocates of minority opinions are brought into the brainstorming sessions, as are outsiders from different backgrounds. As with stakeholder analysis, issue analysis relies on managers being open-minded to new trends and developments.

Key concept

Cross-impact analysis is a tool for analysing the threats and opportunities arising from social and environmental issues in the external business environment. Potential threats and opportunities are analysed in relation to corporate objectives.

12.4 Corporate Social Responsibility strategies and innovation

Stakeholder maps and issue analysis are useful in providing a tool for an understanding of the changing external business environment. But identifying the key stakeholders and the key issues is only the first step for a company. A firm needs to develop CSR strategies to respond to social and environmental pressures in the business environment.

Strategic responses to social and environmental pressures differ widely between different companies, they differ between different industries, and they can also differ between competing firms in the same industry. But there are a number of generic CSR strategies for dealing with social and environmental pressures.

12.4.1 Generic strategies of social responsiveness

Carroll (1979) has identified four generic strategies of social responsiveness:

- Reaction. The firm denies responsibility for social issues, for instance, by blaming others or by pointing to the responsibility of government.
- Defence. The firm admits responsibility but tries to do the very least that is necessary; for instance, the firm may use CSR superficially to improve public relations without pursuing CSR seriously.
- Accommodation. The firm accepts responsibility and does whatever is demanded by the key stakeholders.
- Proaction. The firm seeks to exceed industry norms and anticipates future expectations by doing more than is expected.

A company's strategy can change over time. For instance, Shell's strategy in responding to social pressures changed from 'reaction' in the 1980s, towards 'defence' in the early 1990s, towards 'accommodation' in the late 1990s, and towards 'proaction' today.

'Reaction' strategies are unwise because the firm fails to deal effectively with the external pressures and it may suffer negative media publicity and further criticism as a result. 'Defence' and 'accommodation' strategies can help the firm to deflect external pressures by acting in a responsible manner, and most companies tend to choose one of these two strategies. However, all three strategies—reaction, defence, and accommodation—treat social and environmental issues as external threats. They allow the company to counteract external pressures to a varying extent, but do not allow for social and environmental issues to be seen as business opportunities. According to Michael Porter and Mark Kramer, only 'proaction' strategies are genuinely 'strategic', in the sense that they can help the firm to gain a competitive advantage from CSR (Porter and Kramer 2006). A 'proaction' strategy allows the firm to align social and environmental goals with its core business strategy.

Key concept

Generic strategies of social responsiveness are basic strategies available to firms for addressing external social pressures. There are four generic strategies of social responsiveness: reaction, defence, accommodation, and proaction. Only proaction strategies allow firms to align social and environmental goals with their core business strategy.

12.4.2 Benefits of CSR strategies

CSR strategies can have many business benefits for a company. Detailed studies by the organization SustainAbility (2001; 2002) suggest that the key business benefits are:

- Brand value and reputation (e.g., extending a trustworthy public image; building a distinctive image to achieve differentiation).
- Risk management (e.g., providing stakeholder views as early warning of possible problems; providing alternative viewpoints to reveal unrecognized assumptions).
- Human capital (e.g., increasing retention rates for employees; improving the employees' understanding of customer needs).
- Revenue (e.g., discovering new markets for existing products; developing new products and services).

However, it is often difficult to assign a monetary value to CSR strategies, and many business benefits from CSR are intangible. When managers start engaging with non-traditional stakeholders, they do not necessarily know whether this will ever translate into higher revenues or better corporate reputation. Indeed, leading thinkers suggest that it would be wrong to see CSR as a return on investment because there are always better alternative investment opportunities that could yield a higher return than CSR. Parkinson (1999: 62) concluded that managers should accept that respect for social and environmental issues 'will sometimes require companies to make less than the maximum possible profits'.

Management thinkers such as Michael Porter argue that the main benefit of CSR strategies for firms is to discover future business opportunities and to confer a competitive advantage on certain firms. According to Porter and Kramer (2006), CSR strategies should be seen as 'a long-term investment in a company's future competitiveness'. By integrating CSR strategies into core business strategy, the main benefit of CSR strategies is in helping firms find new ways to grow and develop. According to Blowfield and Murray (2008: 152), CSR strategies should be treated as a 'critical link in innovation and learning'.

12.4.3 CSR strategies and innovation

Different studies show that CSR strategies can lead to genuine business innovations (Kanter 1999; Bhatnagar and Cohen 1997; Wagner 2010; Bocquet et al. 2013). Indeed, many such strategies are becoming an integral part of the company's overall strategy, so that they can no longer be regarded as CSR.

The biggest opportunities for innovation arise with regards to environmental improvements such as reduction in the use of materials and emissions, recycling, and other eco-friendly practices (SustainAbility 2001, 2002; Louche et al. 2010). For instance, a study by Sharma and Vredenburg (1998) compared seven Canadian oil companies and found that the two companies most proactive on environmental improvements greatly benefited from related innovations such as technology patents in the areas of process improvement, sulfur dioxide recovery, waste reduction and disposal, soil restoration, and less polluting fuels. In turn, innovations helped the development of new revenue streams for those companies such as sales of less polluting fuels (Sharma and Vredenburg 1998). This type of real-world evidence supports the ideas of Michael Porter, who asserts that environmental competencies can lead to a competitive advantage for a company (Porter and Van Der Linde 1995; Porter and Kramer 2006).

Another important area of innovation is the development of new products targeted at low-income customers in emerging economies. Global products of multinational firms are often too expensive or unsuited for the low-end market of 4 billion consumers who live on less than US$2,000 a year. New business models known by the term 'bottom of the pyramid' for targeting poor consumers suggest that private firms can help reduce poverty and make profits at the same time. For instance, multinational banks such as Citigroup and Standard Chartered Bank offer microfinance services to poor creditors; microfinance provides poor people with small loans without the need for collateral, while helping banks to reduce their overhead costs and to reach out to new groups of clients. The multinational firms Unilever and Procter & Gamble have developed products specifically targeted at poor consumers, such as micronutrients and new types of detergents; these products allow poor people to improve their health or simply to access new consumer goods, while helping Unilever and Procter & Gamble broaden their markets in often poor neighbourhoods in countries such as India and Brazil (Prahalad 2005; Anderson and Billou 2007; Kolk et al. ~~forthcoming~~).

Innovation depends on the area of activity and the industry sector. Environmental improvements can especially lead to innovations focused on engineering solutions in industries such as chemicals and petroleum. New business models for addressing poverty can especially lead to innovations in industries focused on manufacturing consumer products. Educational outreach activities can particularly help companies focused on new knowledge creation. These examples point to the importance of core competencies for innovation.

12.4.4 **Innovation and core competencies**

The use of CSR strategies does not imply that a company should proactively address every stakeholder issue. Studies on CSR strategies and innovation suggest that a company should align its social and environmental strategies with its core competencies in order to maximize innovation (Kanter 1999; Porter and Kramer 2006, 2011).

Successful innovating companies focus on social and environmental issues that allow them to leverage their core competencies. For example, the multinational oil company Statoil prioritizes climate change initiatives where the company is able to leverage its engineering skills, while the multinational pharmaceutical company Novartis prioritizes healthcare issues where the company is able to leverage its healthcare-related core competencies.

By aligning CSR strategies with core competencies, a company has the best chance of developing new products, finding new solutions to critical problems, and discovering new market opportunities. As one example of a successful alignment, Novartis launched a new health services delivery programme in rural India called Arogya Parivar ('healthy family' in Hindi) in 2007. Novartis used its core competencies in healthcare to deliver a complete health treatment to poor Indian patients at an affordable, fixed price through a newly created healthcare network. The programme has helped over 40 million people to obtain improved access to healthcare, while—at the same time—the programme became profitable within 30 months and Arogya Parivar revenues increased twenty-five-fold during 2007–2013. Novartis subsequently transferred this innovative business model to subsidiaries in other emerging markets such as Indonesia and Vietnam. As another example, Statoil's strategic focus on climate change initiatives helped the company to innovate to become a global leader in carbon capture and storage (a process of safely capturing and storing carbon dioxide underground in order to prevent it from entering the atmosphere), which may become a major business opportunity for Statoil in future.

Multinational firms such as Novartis and Statoil were able to be innovative because difficult new social and environmental tasks forced their employees to stretch their capabilities. The CSR strategy required specialist skills and capabilities already within the company; in turn, these skills and capabilities were upgraded as a result of being used in a new and different context.

12.4.5 **Levels of social innovation**

CSR strategies can lead to innovation at different levels (see Exhibit 12.5 and Exhibit 12.6). According to Adrian Henriques (2005), innovation can occur at three levels: in-market innovation, new market creation, and leadership. In-market innovation refers to the introduction of new products and services within existing markets. New market creation refers to the creation of new markets as a result of new technical or business innovations. In-market innovation allows the firm to find new ways to do the things they do already, while new

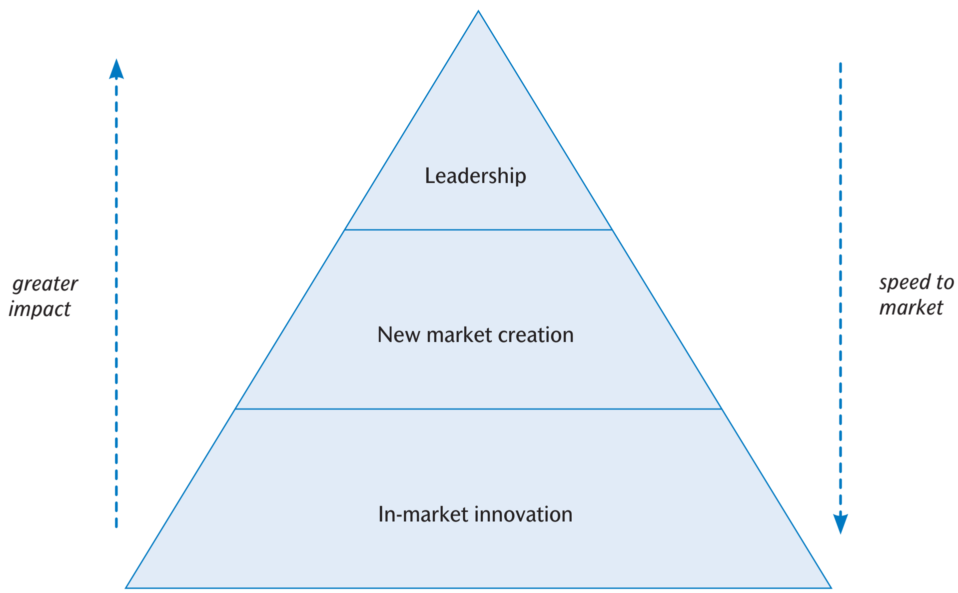

Exhibit 12.5 Levels of social innovation

Source: A. Henriques, 'Good decision—bad business', *International Journal of Management and Decision Making* 6(3/4) (2005): 277. Reprinted with permission of Inderscience Enterprises Ltd.

Exhibit 12.6 Key differences between levels of social innovation

	Strategic planning	Investment	Stakeholder involvement	Example
In-market innovation	Short term	Small- to medium-scale funding	Normally requires mainly internal processes, may involve external stakeholders	Petroleum company develops a low-emission fuel
New market creation	Medium term	Medium- to large-scale funding, may involve new resources and capabilities	Normally requires input from external stakeholders	Shell's investments in solar energy
Leadership	Long term	Large-scale funding, requires new resources and capabilities	Normally requires partnerships with external stakeholders	BP's initiative to combat climate change

market creation enables the firm to do new things. Leadership refers to a firm's leadership in influencing policies and the formation of markets itself (Henriques 2005).

In-market innovation is the simplest and most common type of innovation. It involves the modification of existing products and services or the introduction of new products and services within existing markets. For instance, a manufacturer of appliances may add an eco-friendly cooker or fridge to its existing line of products; a petroleum company may develop a low-emission fuel; a bank may offer an ethical investment fund to existing clients.

New market creation can have a greater impact on the firm's strategy and can bring greater benefits to the firm. However, new market creation takes longer to materialize and is less common than in-market innovation. Examples include Citigroup's creation of microfinance services for poor creditors without collateral, and Shell's investments in solar energy and other alternative energy sources.

Leadership is a complex and time-consuming activity that can help to change the external business environment; thus only selected firms pursue such innovations. Leadership can encompass partnerships with other stakeholders aimed at changing business practices, lobbying the government in order to change regulations, or the creation of new CSR standards. One example of leadership was BP's initiative to combat climate change, which helped towards the adoption of a European-wide emissions trading system (see closing case study). Another example was Statoil's investments in 'carbon capture and storage'. There is no existing market for carbon storage and it is not yet certain that the technology will be widely used in future; hence Statoil's long-standing significant investment in this technology provides leadership in its sector. Firms rarely succeed in creating new markets or in achieving leadership on their own. Typically, firms engage in new types of partnerships to achieve higher levels of innovation.

Key concept

Levels of social innovation are degrees to which innovation can impact a firm's business strategy. Innovation can occur at three levels: in-market innovation, new market creation, and leadership. In-market innovation is the simplest and most common type of innovation.

12.4.6 Non-traditional partnerships and innovation

Non-traditional partnerships can help firms to provide new perspectives, question existing practices, access new types of skills, and develop new integrated strategies. Partners can be other firms, government agencies, non-governmental organizations, academic institutions, and other stakeholders. For instance, the pharmaceutical company Aventis partnered with the World Health Organization and the non-governmental organization Médecins sans Frontières to combat sleeping sickness, a tropical disease; while the auto manufacturer, Daimler-Chrysler, partnered up with Shell Hydrogen (a Shell subsidiary), Norsk Hydro (a Norwegian energy firm), the government of Iceland, and academic institutions to test hydrogen vehicles and hydrogen refuelling infrastructure as well as to produce hydrogen from renewable resources (Holliday et al. 2002).

Non-traditional partnerships tend to provide firms with complementary resources. For instance, Aventis's partners provided the knowledge for working with patients in affected areas, the administration of drugs, and monitoring the impact of health initiatives, while Aventis provided the knowledge of drug manufacturing as well as research and development. Firms, government agencies, and non-governmental organizations can make different contributions in a partnership (see Exhibit 12.7).

There are obstacles to the success of non-traditional partnerships. Partners often do not share the same interests, there is often a lack of trust between partners, and partners often fail to share their core competencies with each other (Blowfield and Murray 2008: 268). However, a firm can maximize the value of partnerships by assessing each partnership at different

Exhibit 12.7 Complementary contributions to partnerships

Government contributions	Business contributions	NGO contributions
Strategic coordination through local development plans	Job creation	Broader perspectives on society and environment
Access to budgets for public services	Knowledge of procurement and supply chain management	Local knowledge
Regulatory provisions	Building local infrastructure	Mobilization of community participation
Brokering or capacity-building roles	Capital equipment, technical skills, and logistics	Independent monitoring
	Performance-led work ethic and access to international best practices	Local and international credibility

Source: Adapted from M. Blowfield and A. Murray, *Corporate Responsibility—A Critical Introduction* (Oxford: Oxford University Press, 2008), 262. Reprinted with permission of Oxford University Press.

Exhibit 12.8 Principles for managing non-traditional partnerships

Partnership exploration stage	
Find the most practicable strategy	Involve stakeholders in design
Be purpose-driven	Set realistic expectations
Be willing to negotiate	Be prepared to say 'no'
Consult	
Partnership building stage	
Appreciate the importance of perceptions	Accept that differences of interest will arise
Integrate cultural values and priorities	Encourage joint problem-solving
Build trust, confidence, and respect	Identify the important voices, rather than the loudest
Be willing to negotiate	
Partnership maintenance stage	
Recognize reciprocal obligations	Adapt to internal and external events
Have clear work plans	Measure added value
Maintain internal and external communications	Do not be a slave to business value
Be willing to negotiate	Instigate continual learning

Source: Adapted from M. Blowfield and A. Murray, *Corporate Responsibility—A Critical Introduction* (Oxford: Oxford University Press, 2008), 269. Reprinted with permission of Oxford University Press.

stages: the exploration stage, the building stage, and the maintenance stage. Exhibit 12.8 provides simple principles for managing non-traditional partnerships. If managed successfully, partnerships can help firms towards better ways of doing business and entirely new ways of thinking about their business.

12.5 **Summary**

In the new global business environment, the public turns to business to perform social and environmental tasks. These new public pressures have given rise to Corporate Social Responsibility (CSR), which has been defined as 'the responsibility of enterprises for their impacts on society'; this encompasses the idea that firms should maximize value both for owners and for other 'stakeholders' and that firms should identify, prevent, and mitigate any possible negative effects of their business operations.

There are two major objections to international firms assuming new social and environmental roles. First, it has been argued that businesses serve the sole purpose of making profit and that they should not pursue any other objectives. Second, social responsibilities differ between countries and multinational firms face a dilemma as to which responsibilities to follow. But views are changing and many international businesspeople now accept that firms have a social responsibility to society. Indeed, CSR may provide various new business opportunities to international firms, particularly in terms of innovation.

CSR strategies, particularly, can lead to genuine business innovations in two key areas: environmental improvements and new products targeted at low-income customers in emerging economies. CSR strategies can lead to innovation at three levels: in-market innovation, new market creation, and leadership. The potential for innovation is greatest when firms leverage their core competencies and when firms enter into non-traditional partnerships with firms, government agencies, non-governmental organizations, academic institutions, and other stakeholders.

Our view is that firms will have increasingly to manage stakeholder issues in the same way as other strategic issues, as they are relevant to competing in a global market. Indeed, it is crucial that stakeholder concerns are not dealt with by a public relations or a stakeholder unit within the firm, but are incorporated into the formulation of strategic plans and financial budgets. To quote Michael Porter, 'Seeing strategy narrowly leads to missed opportunities and bad competitive choices.'

Key readings

- For an excellent introduction to CSR, see M. Blowfield and A. Murray, *Corporate Responsibility*, 3rd edn (Oxford: Oxford University Press, 2014).
- On business arguments in favour of CSR, see A. B. Carroll and K. M. Shabana, 'The Business case for corporate social responsibility: A review of concepts, research and practice', *International Journal of Management Reviews* 12(1) (2010): 85–105.
- On CSR strategies, see M. E. Porter and M. R. Kramer, 'Strategy and society: The link between competitive advantage and corporate social responsibility', *Harvard Business Review* 84(12) (2006): 78–92.
- For a useful new perspective on stakeholder identification, see A. Crane and T. Ruebottom, 'Stakeholder theory and social identity: Rethinking stakeholder identification', *Journal of Business Ethics* 102(1 suppl.) (2011): 77–87.
- On developing social innovations, see R. M. Kanter, 'Transforming giants', *Harvard Business Review* 86(1) (2008): 43–52; and D. Grayson, M. McLaren, and H. Spitzeck, *Social Intrapreneurism and All That Jazz: How Business Innovators are Helping to Build a More Sustainable World* (Sheffield: Greenleaf, 2014).

Discussion questions

1. What are the key arguments against multinational firms promoting social and environmental objectives?
2. Why might socially and environmentally conscious firms be more profitable in the long term than those firms which are not?
3. What problems do managers face in stakeholder mapping?
4. Take a company of your choice. Who are the company's main stakeholders?
5. What types of new products could be targeted at low-income customers in emerging economies?
6. Take one industry of your choice. Provide your own examples for each level of social innovation in that industry.

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Closing case study BP tackles climate change and innovation

Like Shell in 1995, BP faced a crisis of reputation in 1996. BP was accused of complicity in human rights abuses in Colombia. It was revealed that the company had paid millions of dollars to the Colombian army and had provided the army with photographs and other information about critics of oil operations, which allegedly led to intimidation, beatings, and disappearances of local people. The company's executives realized that BP needed to change how it managed its relationship with wider society.

The chief executive of BP, John Browne (CEO between 1995 and 2007), knew that corporate social responsibility could have many business benefits, especially by improving the company's reputation and motivating employees. He decided to focus on tackling the problem of climate change. In a speech to students at Stanford University in 1997, John Browne said:

> We must now focus on what can and what should be done, not because we can be certain climate change is happening, but because the possibility can't be ignored. If we are all to take responsibility for the future of our planet, then it falls to us to begin to take precautionary action now.

But even John Browne did not foresee how much BP would eventually benefit from social responsibility. BP's efforts to reduce greenhouse gas emissions (which contribute to global warming) exceeded all expectations, and the company was able to save billions of dollars by being more energy efficient.

In 1997, BP set itself the target of reducing greenhouse gas emissions from its own facilities by 10% from 1990 levels by 2010. The company was able to attain this goal nine years early, at the end of 2001. The company then set itself a new target of ensuring that net emissions did not increase between 2001 to 2012. Since 2001, BP has made further progress. BP's greenhouse gas emissions declined by a further 22% between 2002 and 2006, at a time when the company's oil production increased in the same period by over 30% and its natural gas production almost doubled.

How did BP achieve these targets? The company's CEO, John Browne, believed that BP had to be creative in reducing greenhouse gas emissions. In 1997, he announced that BP would use internal emissions trading to achieve emissions reductions.

BP's emissions trading system

Emissions trading is a technique for buying and selling the right to generate pollutants. Each BP business unit was assigned a target for the emission of greenhouse gases and a number of 'permits', each of which gave the business unit the right to emit one metric ton of carbon dioxide.

The company's business units were able to trade permits among each other. A business unit that was able to reduce greenhouse gas emissions was free to sell permits. A business unit that was unable to find economical methods of reducing emissions could buy permits. Therefore, the trading system introduced incentives for pursuing the most cost-effective methods for emissions reductions within the company as a whole.

A significant part of the emissions reduction was achieved through reductions in gas flaring. When a company produces petroleum, natural gas is often found in the same oil reservoir; if the gas cannot be used commercially, it is often burned or 'flared' at the site. As a result of emissions trading, BP estimated that the company was able to save US$650 million through decreased gas flaring, either by selling the gas or by increased energy efficiency.

The emissions trading system was operational from January 2000 until the end of 2001, by which time BP had achieved a 10% reduction in greenhouse gas emissions. BP's initiative also helped to change the external business environment. BP's experience in carbon trading earned the company an advisory role in developing both the UK's emissions trading system and the European Union's

Emissions Trading Directive. While BP's emissions trading system did not lead directly to the development of European trading systems, BP was able to influence the selection of emissions trading as the preferred policy instrument for addressing emissions reductions within Europe.

Awards for innovation

The emissions trading system demonstrated to BP managers that being socially responsible could help innovation and reduce costs. In 2001, BP started the Helios Awards scheme. The awards are open to any BP employee or BP partner organization. They are intended to encourage entrepreneurial ideas from individual employees for projects that protect the environment and help towards better company performance. The awards helped to reduce greenhouse gas emissions still further.

One Helios Award was given to a project that used the chemical polybutene to reduce the emission of smoke from motorbikes. BP decided not to keep the technology secret but to share it with others, so this innovation is now commonly used around the world. By sharing the technology BP achieved a competitive advantage, because the company had a leading position in the manufacture of polybutene.

In 2007, the 'green' award was given to a project that helped to reduce greenhouse gas emissions from BP's ships, which transport liquefied natural gas (LNG). LNG ships were powered by steam turbines: they had low energy efficiency and resulted in high fuel consumption. In partnership with the South Korean company, Hyundai Heavy Industries, BP developed a ship design incorporating a highly efficient dual fuel diesel electric (DFDE) propulsion system, together with a number of other pioneering environmentally efficient design features. Since BP ordered the first four vessels, the entire LNG shipping industry has embraced this technology. The DFDE system emits 25% less carbon dioxide and has no sulphur dioxide emissions, which helps BP reduce greenhouse gas emissions and the financial costs of fuel consumption.

New investment opportunities

BP's initiatives on climate change helped the company to discover new business opportunities outside the traditional oil and gas sector. In 2005, BP created a BP Alternative Energy business unit and the company has invested in renewable energy, including solar, wind, biofuels, and hydrogen. In 2008 alone, BP planned to invest US$1.5 billion in alternative and renewable energy technologies.

BP's solar energy business, created in 1998, has grown into one of the world's largest solar energy businesses, with manufacturing facilities in the United States, Spain, India, China, and Australia. The company's solar business unit became profitable in 2004 and higher profits are expected in the future. BP stated: 'The solar market is growing fast; and as one of the top solar manufacturers in the world, we are in an excellent position to benefit.'

In wind energy, BP planned to install 1,000MW of wind capacity by the end of 2008. In biofuels, BP partnered up with the food and retail company, Associated British Foods, and the chemical company, DuPont, to build a US$400 million biofuel plant by 2010. In hydrogen, BP planned to build a pioneering power generation plant in Abu Dhabi in order to use hydrogen gas to fuel gas turbines and generate 420MW of low-carbon electricity.

The end of BP's social and environmental innovation?

However, BP lost its CSR leadership in the oil and gas sector, which depended largely on the enthusiasm of the company's CEO John Browne (CEO from 1995). BP's proactive CSR strategies quickly dissipated in 2007 when John Browne was replaced by a new CEO who put less emphasis on CSR. John Browne's successor, Tony Hayward, suggested in late 2007 that BP would get back to basics, namely focusing on the core activity of oil and gas production. Issues such as renewable energy and climate change received less attention from the company's senior management than before.

Indeed, BP has become a symbol for irresponsible behaviour. In April 2010, BP suffered from a well blow-out at the Deepwater Horizon rig in the Gulf of Mexico which killed 11 people and led to a major oil spill. It took BP until August 2010 to successfully shut in the oil well, which in the interim had spilt millions of barrels of crude oil into the Gulf of Mexico, causing much environmental damage and industry disruption in the region. The resulting public inquiries by the US government showed that BP and its business partners failed to observe best social and environmental practices before the explosion and that, in the weeks before the accident, BP made a number of operational decisions that focused on decreasing operational costs which ~~lead~~ to higher health and safety risks. As a consequence of the accident, BP had to pay billions of dollars in compensation, BP's share price declined relative to other oil companies, and the company's reputation was severely tarnished. The accident also forced Tony Hayward to resign as BP's CEO.

The issue of climate change shows how BP lost its leadership in CSR-related innovation. When CEO John Browne decided to focus on tackling the problem of climate change in 1997, BP was considered the most innovative oil company on climate change in the world. Today, other oil companies such as Statoil and Chevron are ahead of BP. Most notably, the Norwegian oil company Statoil has a strategic objective of being an industry leader in carbon efficiency and regards 'carbon capture and storage' (CCS) (a process of safely capturing and storing carbon dioxide underground in order to prevent it from entering the atmosphere) as a major potential business opportunity—Statoil's long-standing significant investment in this new technological process was pioneering and Statoil built the world's first LNG plant with a CCS facility in Norway. Meanwhile, the US company Chevron is working on the Gorgon natural gas project in Australia, which will become the world's largest carbon dioxide injection facility when completed by 2015—this facility will reduce carbon dioxide emissions from the Gorgon project by 40% and will become a leading example of innovation that helps to address the issue of climate change. Will BP be able to become a leader in social and environmental innovation once again?

Sources: M. Akhurst, J. Morgheim, and R. Lewis, 'Greenhouse gas emissions trading in BP', *Energy Policy* 31(7) (2003): 657–63; D. G. Victor and J. C. House, 'BP's emissions trading system', *Energy Policy* 34(15) (2006): 2100–12; C. Perceval, 'Towards a process view of the business case for sustainable development: Lessons from the experience at BP and Shell', *Journal of Corporate Citizenship* (9) (2003): 117–32; BP website at http://www.bp.com.

Discussion questions

1. What benefits did BP achieve as a result of the climate change initiative?
2. What 'levels of innovation' were involved in BP's initiatives?
3. To what extent should other companies imitate BP's climate change initiative?

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